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Using Accumulated Sick Days Towards Retirement for Faculty Under ORP

Submitted by Tom Warchol

3/24/2010

Question:

Being able to use accumulated sick days towards retirement would provide an incentive for senior faculty to retire early and let the individual institutions fill the vacancies with new and younger faculty. Given the current and continuing crisis, such measure may prove the most effective way to overcome longterm stagnation and keep the USG relatively healthy.

Rationale:

Faculty as well as all USG employees with TRS have an option of using their accumulated sick days towards retirement. Such privilege is not available to those under ORP. What steps can ORP faculty take to negotiate a similar option? Has BOR been approached about that matter?

Response:

Michael Moore, Senate Moderator, has responded to the rfi from Tomasz Warchol in the following way: Please see the resolution submitted by Bill Wells. (below)

Additionally, any changes to the ORP and TRS must come through the Georgia Legislature. An attempt last year failed and any new attempts must wait another year.

Approved by the Senate: 10/24/2006

Approved by the President: 10/26/2006

Equal Consideration for ORP & TRS Members

Bill Wells

wwells@georgiasouthern.edu

5432

Date Submitted 10/11/2006

Rationale:

Recent changes in employer contribution rates to the ORP plan have magnified the differences in plan benefits. These differences are detrimental to ORP members.

Response:

Motion:

We the members of the Faculty Senate of Georgia Southern University ask that the Board of Regents of the University System of Georgia (BOR) address several issues related to parity between the Optional Retirement Plan (OPR) and the Teachers' Retirement System (TRS) with members of the TRS Board:

1. We request equivalent consideration regarding accumulated sick days.

Rationale:

Accumulated sick days constitute a valuable asset to TRS members, in that they may be used to increase retirement income. This benefit is permanently lost to ORP members.

2. We request that ORP employer contributions match the total TRS employer contributions.

- a. Total ORP employer contributions match only the TRS “normal” contributions. Therefore, currently, ORP members bear 100% of the cost of managing funds in the ORP. However, TRS members receive a legislative subsidy to manage their funds.
 - b. TRS contributions enjoy an adjustment factor to offset market vagaries and fluctuations. ORP investments are subject to the same vagaries and fluctuations, with no offsetting adjustment.
3. We request that the Georgia State Legislature reconsider the term of the vestment period and the permanence of the initial selection of a retirement plan.

Rationale:

The ORP constitutes a dominant strategy over the TRS plan at the time of a faculty member’s initial hiring. This could be mitigated by:

- a. Reducing the vestment period to 5 years and/or b. Allowing ORP members the opportunity to join the TRS plan. SEC Response

Senate Response:

Approved by the Faculty Senate 10-24-2006: I am pleased to report that the Senate unanimously recommends approval of the amended motion below presented by Dr. Godfrey Gibbison, at the October 24, 2006, Faculty Senate meeting.

MOTION:

The Faculty Senate of Georgia Southern University endorses and approves the recommendations made by the USG Council of Councils in their letter to Governor Perdue, Chancellor Davis, the BOR and the legislature.

The SEC has unanimously decided to replace this motion with the following: The Faculty Senate of Georgia Southern University endorses and approves the recommendations made by the USG Council of Councils in their letter to Governor Perdue, Chancellor Davis, the BOR and the legislature.

The latest draft letter is attached.

President's Response Approved by the President 10-26-2006: Following review of the recommendation adopted by the Faculty Senate at the October 24, 2006, Faculty

Senate meeting, as provided in your memo of October 25, 2006, I have approved the motion below presented to the Senate by Dr. Godfrey Gibbison.

MOTION:

The Faculty Senate of Georgia Southern University endorses and approves the recommendations made by the USG Council of Councils in their letter to Governor Perdue, Chancellor Davis, the BOR and the legislature.

Attachment:

DATE: October 14, 2006

TO: Governor Sonny Perdue

Chancellor Erroll B. Davis, Jr.

Board of Regents, University System of Georgia

Presidents, Colleges and Universities of the University System of Georgia

FROM: The Ad Hoc Council of Academic Councils

The University System of Georgia

SUBJECT: ORP Employer Rate Reduction for 2006-2007

Many USG faculty who participate in the Optional Retirement Plan (ORP) have expressed deep concern and disappointment regarding the recently announced reduction in the employer contribution to the ORP for plan year 2006-2007. The rate cut of 1.53% is an immediate reduction in the gross compensation paid to faculty and represents a reduction of 15.84% from last year's rate. Moreover, this cut unfairly affects one class of USG employees, namely those in the ORP but not those who are members of the Teachers Retirement System (TRS) of Georgia.

The University System of Georgia has recently made great strides in recruiting high caliber faculty in many of its units. Its strategic plan emphasizes the "recruitment, hiring, and retention of the best possible faculty, staff, and administration" and recommends making "salaries competitive in the South and nationally." Yet faculty and staff have in recent years experienced either minimal or no pay raises and have seen the costs of many of their fringe benefits rise. To meet USG's stated goal of recruiting and retaining

the best possible faculty and raising its standing as a leading university system in the nation, the system must provide a total compensation package, including benefits, that remains nationally competitive and attractive. For comparison: Indiana University pays up to 15% of salary (100% employer paid) to its retirement plan; Virginia, 10.4% (100% employer paid); Florida, 11.81% (100% employer paid); Tennessee, 11% (10% if wages below social security maximum; 100% employer paid), and Arkansas, 10%. The four southern states of Virginia, Florida, Tennessee, and Arkansas contribute on average 10.80%.

Serious under funding of ORP will adversely impact a member's accumulations and therefore the potential benefit available upon retirement. The Chronicle of Higher Education reported on September 25, 2006 that a greater percentage of faculty may choose to work past age 65 because of concerns about inadequate health benefits. Inadequate pension benefits in ORP could join the list of their concerns. It is important for the USG to fund the ORP at levels that will raise the likelihood of generating benefits to make it attractive for higher-paid senior faculty in ORP to welcome retiring at age 65. Else many will opt to continue working past age 65, thus limiting the system's ability to recruit new and younger faculty and also to lower its overall salary costs.

Faculty representatives of the Colleges and Universities comprising the University System of Georgia therefore wish to make the following recommendations:

- The USG contribution to the ORP should be fixed at 10.80% of salary each year, or the total employer contribution to TRSGA whichever is greater. (10.80% is the current average employer rate of Virginia, Florida, Tennessee, and Arkansas.) The employer contribution percentage to the ORP should be reviewed and when necessary increased to normalize for any future enhancements made to the TRS benefits package;
- Set the plan year for the ORP to be the state's fiscal year and make rate changes effective the fiscal year;
- To provide the necessary funds to change the rate to 10.80% effective FY07 and for each year thereafter until legislation is passed to effect the rate change permanently, the state should make a special ORP appropriation in the state budget each year;
- In the event the required employee contribution to the ORP might be reduced in the future, allow ORP members the option to contribute at a rate up to the previously higher employee rate on a voluntary and tax deferred basis;
- Grant a one-time window for those members who currently participate in the ORP to transfer their accumulations to the TRS and be entitled to receive a defined benefit pension in TRS without any reduction and as would otherwise be determined by their years of service in the University System of Georgia;
- Grant a one-time window for those members who currently participate in the TRS to transfer all their accumulations with interest, both employer and employee share, to the

ORP;

- Decrease the vesting time in TRS to five years;
- For new faculty, grant option to switch between ORP and TRS upon grant of tenure in the system;
- Grant credit to ORP members for their accumulated sick time similar to the sick leave benefit available to TRS members either as a lump sum dollar amount paid to the ORP, or as an actuarially equivalent defined-benefit pension credit paid by TRS upon retirement;
- For those members who elected to transfer from TRS to the ORP when ORP was first offered by the BOR in 1990, return with accumulated interest all employer contributions for their prior years of service in the TRS (up to nine years) that were withheld at the time of their transfer. Alternately, grant ORP members an actuarially equivalent benefit defined pension credit paid by TRS upon an ORP member's retirement.
 - o Precedent: HB/SB 253 passed in 2004 regarding Assistant Coaches that allowed assistant coaches to transfer 100% of their contributions, both employer and employee with accumulated interest, to the ORP;
 - o Forfeiture clause: Termination of employment was the only provision of the TRS code in effect in 1990 that would allow forfeiture of employer contributions.

Transfer to ORP did not require or constitute termination;

- Offer more choice of carriers in the ORP (e.g., low cost firms such as Vanguard if they participate in the ORP);
- Establish definitive and clear lines of communication to advise both ORP and TRS members in a timely manner of legislation that has the potential to affect their retirement benefits. To this end, and also to provide fair representation, appoint at least one USG faculty member who is an ORP participant to the Board of Trustees of the TRS.

Thank you for your consideration of this matter.

Sincerely,

USG Council of Councils